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USAID KOSOVO PRIVATE ENTERPRISE PROGRAM (KPEP)

QUARTERLY REPORT
October – December 2008

Implemented by
Booz Allen Hamilton

Contract No. EEM-I-07-00007-00
Task Order No. 2

15 JANUARY 2008

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Executive Summary

The USAID Kosovo Private Enterprise Program (KPEP) was awarded on September 22, 2008. It is a \$17.8 million project with a duration of four years. It is implemented by the U.S. consulting firm Booz Allen Hamilton.

KPEP focuses on four sub-objectives: (1) private sector development in targeted sectors, (2) robust business support services, (3) an improved business enabling environment; and, (4) workforce development activities.

Project start up began immediately upon award, with the first project staff arriving in the same week to take over the equipment of the predecessor project, Kosovo Cluster Business Support project (KCBS). For start up expediency, KPEP began operations in the predecessor project's office space. Key expatriate staff arrived in the following weeks, and local staff was brought on board.

KPEP's first task was to undertake an assessment of the Kosovar economy with the objective to identify sectors with growth potential, in which KPEP could have significant impact – in addition to the pre-identified sectors Agribusiness and Construction.

A team of Booz Allen experts, together with local staff, and contracting out a sector survey with local consulting firms, undertook this sector selection, based on a methodology developed by Booz Allen. The team implemented a three-phased approach towards sector selection. The Sector Selection Report which details the sector selection process and analysis was submitted as a separate document to the USAID/Kosovo Mission. As a result of this research, the team short-listed 10 sectors which were then placed in one of three categories, each representing a different approach.

Recommended and Approved Sectors

Informational	Transactional	Transformational	Pre-Selected
Fishing and Aquaculture	Information and Communication Technology		Agriculture
Apparel and Leather	Forestry and Wood products		Construction
Printing and Media	Recycling		
Energy Efficiency	Tourism		
	Fabricated Metals and Auto Parts		
	Decorative Stones		

In the Pre-Selected sectors Agribusiness and Construction KPEP proposes to build on the results of KCBS, aiming to take the sectors to a higher level of performance, whether in production output, productivity, quality, or marketability. In Agribusiness, KPEP will focus on the sub sectors Dairy, Fruit and Vegetables, and Non-Wood Forest Products. In Construction, KPEP will work in Road Construction and Construction Materials.

The categorization of a sector as “Transformational”, “Transactional”, or “Informational”, identifies KPEP's intended approach during the first year of implementation.

The approach towards *transformational* sectors is to undertake activities that best support the goal of achieving transformational changes within these sectors during the life of KPEP. While achieving discrete ROI (return on investment) impact is important, only through the parallel implementation of activities related to policy advocacy, workforce development and training, and business support services, among others, can the sector be transformed. Significant resources across the four components will be most directed to these sectors: Forestry and Wood Products, and Information and Communication Technology (ICT).

Transactional sectors are to focus on discrete initiatives that will help the sector increase sales, exports, and/or employment, attract foreign direct investment (FDI), or a move up the value chain. Moderate program resources that are targeted, specific and results-driven will be allocated towards these sectors in the first year. Transactional sectors include Tourism, Recycling, Fabricated Metals and Auto Parts, and Decorative Stones.

For sectors that are categorized as *informational*, the approach and objective is to gather more information and monitor developments in the sector to determine if there are unique opportunities that warrant project support. Limited program resources will be devoted to this tracking, and the project team will provide USAID/Kosovo with periodic reports based on additional information gathered. Informational sectors include Fishing and Aquaculture, Textiles Apparel and Leather, Printing and Recorded Media, and Energy Efficiency.

KPEP sector selection activities included:

- *Assessment Meetings and interviewing:* KPEP met and interviewed over 150 companies including institution and other donor projects;
- *Sector Analysis:* The KPEP Team conducted an analysis of over 65 reports on individual companies, industry profiles and sector constraints;
- *One-on-One Company Interview:* The Sector Selection Team conducted 35 one-on-one company interviews across the country, in Pristina and the regions including Gjilan, Ferizaj, Peja, Istog, Prizren and others using a detailed standardized questionnaire;
- *Expert Interviews.* The Team likewise conducted 14 interviews with experts, including industry specialists, other donors, and government officials;
- *Company Survey:* The KPEP Team partnered with Riinvest Institute to conduct a survey of 600 companies across the full range of sectors;
- *Focus Group Discussion:* Oversight of Riinvest Institute as they conducted Focus Group Discussions for five sectors for which survey results were either lacking or limited. These sectors include: Forestry and Wood Products, ICT, Recycling, Textiles Apparel and Leather, and Printing and Media;
- *Official Economic Data:* The Team partnered with UBO Consulting to obtain official economic data on the sectors under evaluation. UBO Consulting obtained these statistics from the GoK, specifically the Tax Administration of Kosovo, Statistical Office of Kosovo, Ministry of Trade and Industry, Central Bank of Kosovo and the Ministry of Education, Science and Technology.

The component leads of the Business Support Services, Business Enabling Environment, and Workforce Development were actively engaged in the sector selection effort, and at the same time, began their component-specific analyses and activities. Activities in the first quarter for these components included:

In Business Services Support: Development of the Premier Advisors Program, and the Implementation of the first Association Development Index review.

In Workforce Development: development of the heavy equipment operators training needs assessment, together with the Construction sector leads.

In Business Enabling Environment: Review of the Construction Law, Law on Private Public Partnerships, the Tourism Law.

KPEP also developed a policy manual for its \$3.76 million Strategic Activities Fund (SAF), which proposes to issue subcontracts and grants to eligible companies, organizations, and other entities.

KPEP further engaged in a comprehensive exercise to develop and define a performance based management system (PBMS), which will monitor and report on KPEP's activities and results on a quarterly basis.

The KPEP communications team developed a number of communications products, including project flyers, and a project website, www.usaidkpep.org, and organized a first KPEP stakeholder meeting in Pristina, as well as a number of sector specific events, including a presentation by the first KPEP STTA who assessed the need for a heavy equipment operator training facility.

Per the task order, the KPEP Year 1 Work Plan was submitted as a first draft together with the sector selection report on November 21, or 60 days after contract award. The second work plan draft was submitted on December 22, or 90 days after contract award. The draft of the SAF policy manual was also submitted on the same day, ahead of schedule.

Component 1: Increased Competitiveness of Key Sectors

PRE-IDENTIFIED SECTORS

1a) Agribusiness

1 a 1) Dairy

Key Activities and Events

In addition to socializing the project and team with development partners, the dairy strategy for developing the value chain focused upon identifying dairy sector partners who can execute the development goals of increased employment and sales most effectively. The options are limited to the dairy associations or a lead firm(s) or a combination of both. The first quarter is also an opportunity to test strategy and make modifications if necessary. The KPEP Agricultural Sector Specialist took advantage of the offer to hire former KCBS agricultural employees on a short term technical assistance basis to make introductions to partners. This included the dairy associations, key dairy producers and processors, the Kosovo Veterinary and Food Agency, and Ministry of Agriculture personnel. The participation of former KCBS was much appreciated in this regard.

The initial quarter also allowed the dairy value chain strategy to be tested and develop options. Value chain development allows modification and flexibility to achieve goals as situations and environments change. This is the case for KPEP. The initial suggestion of interventions along the value chain as consumer awareness and milk quality needs to be modified. The strength of imported brands such as Dukat, Alpsko, and SwedeMilk is so challenging that the Kosovo dairy sector needs to focus and pick a battle it can win. In that regard KPEP's dairy value chain will likely focus upon lead firms to a greater degree rather than associations. Lead firms such as Bylmeti, Magic Ice, and Devolli exhibited dedication to the dairy sector, made investments and are willing to embed services at milk collection centers.

In early January 2009 KPEP will have conducted an audit of associations to measure their maturity to deliver services to members and their respective sectors on a sustainable basis. This will help direct the dairy sub-sector component. Where the associations can play a role is working together to improve milk quality. Concepts were introduced to the associations and will be addressed in the next quarter.

The former KCBS employees were marginally helpful and this applies across all agricultural sectors where they provided assistance. There are two reasons. First, they have minimal experience with value chain development and felt more comfortable reverting to activities conducted under KCBS. Secondly, they expected a job as many saw employment roll over from KBS to KCBS.

KPEP completed a profile of the dairy sector.

Donor Coordination

There is very little other donor activity in the dairy sector. GTZ has a small dairy sheep project in Dragash with developing the Sharii Cheese brand.

Project Coordination

The BSP component is conducting the association audit in early January 2009, which will have an impact on the role that the dairy associations play in work plan execution.

BEE coordination is critical and will increase in importance in guiding KPEP's agricultural sector through implementation legislation on dumping of foreign dairy products on the Kosovo market, as well as in assisting in export activities.

Expectation for the upcoming quarter

In March 2008 the previous project had conducted dairy market research. In February 2009 KPEP will develop a market strategy from the research. The market strategy will be implemented by a lead firm(s). A US based consultant has been identified.

Quality and quantity control is key in delivering to the market the dairy products that are in demand. The Kosovo dairy sector has a formidable challenge to compete with regional imports and build consumer confidence. To this end the processors association and the producers associations need to develop a common strategy to monitor and respond to quality issues at the lower end of the value chain, farm to collection center. KPEP will work with the associations to develop and execute the strategy. Strategy meetings begin January 2009.

In February 2009 a KPEP marketing team will travel to Montenegro and Albania to identify seasonal markets for all KPEP agricultural sub-sectors, including dairy. There are seasonal shortages of dairy product due to the increase in the tourist population and KPEP feels dairy has the potential to benefit from the supply demand imbalance particularly since during the summer dairy has an over supply in Kosovo.

1 a 2) Fruit and Vegetable

Key Activities and Events

The fruit and vegetable sector is very large. KPEP seeks to identify those sub-sectors that can be most competitive in the regional market. Processing peppers are one sub-sector where Kosovo has been able to compete effectively and can expand its market presence. KPEP initiated market contact to penetrate in 2009; Albania and Macedonia. Potatoes are another sub-sector where Kosovo can perform well. Of particular interest are processed potatoes, French fries and potato chips. Other sub-sectors and key interventions along the value chain will be identified in the short term technical assignment, fruit and vegetable value chain audit in January 2009. The value chain audit will also confirm whether an emphasis upon post harvest handling at the local level can be justified economically. Initial first quarter analysis indicates that post harvest handling needs to include storage. Providing sorting, grading, and packing probably does not add sufficient additional income to cover the costs. Discussions with hypermarkets indicate that they are willing to make an investment in post harvest handling, a situation where they would not have to pass along price increases to farmers.

Several meetings were held with the owner of the Etlinger Company. Etlinger is a well established brand name in Austria for pickled products; peppers (sweet and hot), tomatoes,

cabbage, and cucumbers. In 2004 the Austrian owner passed away and the family provided assistance to their long time Kosovar employee, Tahir Kokollari, to take over the brand name. He relocated to Shtime in 2006. In 2007 and 2008 he worked out of a makeshift facility. He has maintained the market in Austria and co-packs for a German company. He purchased land in the new industrial zone in Shtime and will construct a new facility in 2009. Etlinger's initial demand from producers is 1000 metric tons. His market is as much as 3000 metric tons. The constraint in the processing line is the pasteurizer. KPEP can provide assistance in business plan through a graduate of the Premier Advisor Program.

KPEP completed a profile of the fruit and vegetable sector.

Donor Coordination

Donor coordination is a dynamic situation. Initial reports from KPEP local short term personnel of donor activity were inaccurate. Intercooperation's project of Promote Horticulture in Kosovo and Mercy Corps' Revitalize Agricultural Value Chains are successful and very much interested in working together to avoid duplication but most importantly to leverage impact. Specific roles will be defined in the second quarter after a review of the value chain audit.

Project Coordination

Since fruit and vegetable activity is focused upon regional markets, the January 2009 issue of the recognition of the Kosovo customs stamp and transport with vehicles using Kosovo registration and license plates raises the importance of BEE coordination. KPEP is fortunate to have a BEE team member who is well versed in international trade law.

In addition BEE will be accessed to build a case to proceed to get fresh potatoes access to EU markets. It is unclear if the prohibition is due to a potato disease or the lack of certification that Kosovo potatoes are disease free or possibly none of the above.

Expectation for the upcoming quarter

In January KPEP will conduct the fruit and vegetable value chain audit. The consultants are a team which recently successfully completed a six year, \$12 million USAID funded fruit and vegetable project in Ukraine. They have particular insight into end markets and market information. Recommendations will direct many activities during the quarter and beyond. Intercooperation and Mercy Corps will be debriefed by the visiting consultants and roles will be defined. Also one of their interesting recommendations will be the local use of the Kosovo market information system, which has an excellent web site but few people including Intercooperation and Mercy Corps are aware of it.

Also in January the initial end market requirements for peppers will be completed and follow up sales visits will be made in Macedonia and Albania. KPEP will coordinate with commercial farmers and associations to develop the supply to meet the demand as reflected by market information on specifications. KPEP will also coordinate with Los Pallmos and other seedling producers to link seedling production to the demand of growers.

In February a KPEP marketing team will travel to Montenegro and Albania to develop market opportunities for Kosovo fruit and vegetables during the tourist season.

Market opportunities for processed potatoes, French fries and chips, will be searched. Early reports indicate that buyers in Europe are anxious to secure long term contracts for bulk supplies of French fries and chips.

1 a 3) Poultry

Key Activities and Events

KPEP conducted several meetings with the poultry association to socialize the project and team. The association has been focused upon egg production and would like KPEP to continue with support. KPEP sees potential in egg producers diversifying into broiler production but the initial challenge from the association has been whether KPEP grants will finance the diversification. This points out the need to properly position the SAF component and the alternatives of business plan development through Premier Advisors for financing from commercial banks. A key element of SAF is not to distort the acquisition of capital investment.

The poultry meat sub-sector is the convergence of two value chains; poultry and livestock feed. KPEP has outlined a program to coordinate a donation of US corn seed from Rotary International, California into a demonstration trial for the Peja region. Farmers have been purchasing seed from Greece and tests conducted in the US indicate the seed was old and resulted in low germination rates and poor performance. The program will begin in January 2009 with the selection of farmers for participation. The Rotary International effort will require minimal effort and high visibility in the Peja region. The KPEP effort also promotes US investment which in this case is Pioneer seed corn.

An informal survey of food retailers in Pristina, Ferizaj, and Peja indicates that there is overwhelming demand for fresh local poultry. Fresh local food is projected to out compete organic over the next five years, so positioning Kosovo on the market as fresh and local should generate excellent results. KPEP has identified the lead firm, Kony-Sony, to develop a business strategy to bring along the entire value chain. Kony-Sony has the resources and the dedication. Their business approach has been to develop outgrower schemes with the rural poor for layer production. They provide embedded services to egg producers and they are willing to do the same for broilers.

KPEP identified pullet production (day old chicks) as a key constraint but also an excellent investment opportunity. Currently pullets are sourced reliably from Hungary and unreliably from Bosnia.

KPEP completed a profile of the poultry sector

Donor Coordination

There is no other donor activity in this sub-sector although it should be noted that several programs focused upon poverty reduction are enthusiastic to providing micro-financing for women, youth, and minorities as well as rural poor to procure birds for the broiler value chain.

Expectation for the upcoming quarter

In January KPEP will commence the activity for the donated seed corn with the identification of farmers and variety selection.

In March KPEP will develop a prospectus for pullet production as an investment. Currently day old chicks are purchased from Hungary and Bosnia. There are market opportunities in the region and Kosovo can be very competitive supplying pullets to Kosovo, Albania, Montenegro, and Macedonia.

KPEP will prepare a vision for growth with Kony-Sony. Kony-Sony has also expressed an interest in attracting a financing, not a managing, partner to expand broiler production. KPEP through ECIKS, NAAC, and the World Bank Invest in Western Balkans program will seek to find an investor. An investment such as this can be greatly enhanced with KPEP involved because KPEP can provide assurance that branding will be undertaken, a strong retail and consumer relationship will be developed, the work force skills will be improved, etc.

KPEP will develop a market strategy with the lead firm for fresh, local poultry meat.

1 a 4) Non-Wood Forest Products

Key Activities and Events

KPEP conducted two site visits to APC to discuss their harvest and marketing plan for 2009. APC, as one of several lead firms, will help in the development of a conference to bring together traders, collectors, and processors. APC and other firms have rapidly expanding markets and would like to further penetrate markets in North America and Asia, as well as continue to service markets in Europe. The economic slow down may have an impact. To potentially reduce transaction costs KPEP will link APC and other lead firms with buyers in Bulgaria. The Bulgaria connection may become critical if the Kosovo customs stamp issue is not resolved or other transportation constraints develop. Bulgaria as an intermediary market has potential for all the right reasons, lower costs, ease of accessing the EU, rapidly investing in processing, and as the #5 in the world in this sector, Bulgaria has leverage.

KPEP developed the statement of work for Jakob Modeer to develop a vision for growth of the sub-sector. Modeer, a Bulgarian resident, has the market insight and can identify end markets and market information.

KPEP has completed a profile of the non-wood forest product sub-sector.

Donor Coordination

Intercooperation is working more closely with MAPS (medicinal, aromatic plants), Mercy Corps is working with cultivated herbs and spices. However all projects share a common market channel. KPEP has the marketing ability with personnel like Modeer in Bulgaria, Yarmak in Ukraine, and Remer Lane of Booz Allen in Serbia.

Project Coordination

Work force development will play an important role in working with traders and collectors to 1) plant/product identification and 2) harvesting technique to avoid over harvesting which is one of the threats to the sector.

Expectation for the upcoming quarter

Mr. Modeer's assignment is scheduled for February. The vision for growth assignment will provide guidance for the sub-sector pre-harvest conference and identify new markets and new products. A debriefing will involve Intercooperation and Mercy Corps. KPEP will more closely define the level of effort that can be obtained from the marketing personnel above mentioned.

KPEP plans to prepare a schedule and agenda for the pre-harvest conference.

1b) Construction

1 b 1) Road Construction

Key Activities and Events

During this first quarter, KPEP met and consulted with all major stakeholders in the Construction and Construction Materials sector, including the Ministry of Transportation, Post and Telecommunications (MTPT); Ministry of Trade and Industry (MTI), its Department of Construction, and the Kosovo Standardization Agency (KSA); the Ministry of Environment and Spatial Planning (MESP); the Ministry of Labor and Social Welfare (MLSW); , the Ministry of Education and Science (MES); the Road Construction Association of Kosovo (RCAK); the Kosovo Association of Concrete Producers (KACP); the Association of Wood Processors of Kosovo (AWPK); the Association of Architects of Kosovo (AAK); and several private companies.

The sector focused on two major activities: Improvement of Local Road Design Capability (Road Construction Sub-Sector) and on the Establishment of Training Programs and Facilities to Upgrade the Skills of Construction Workers.

The Government of Kosovo approved the 2009 budget for capital investments on road construction and maintenance in the amount of 150 MM Euros. This allowed KPEP the initiation of the key activities in machinery, training, and design. These activities began in the first quarter and will be continued in the following months.

To facilitate these activities KPEP held a number of meetings with MTPT to discuss program commitment for planned activities and KPEP's proposal to provide expertise on three pilot projects to be identified by KPEP and MTPT. It is anticipated that these three programs will include planning, preliminary design, implementation and final inspection of the completed projects. KPEP's involvement will help to insure the use of EU based standards throughout each phase of the project. Our observation and daily involvement will provide a path for immediate intervention as well as critical input into areas that will require additional training.

KPEP conducted industry wide stakeholder meetings to review the current draft of the Construction Law and the implementation of both Construction and Procurement laws as they apply to road construction. As a critical component to this work, KPEP advised associations as to how to respond to the Laws. KPEP also hosted a meeting of the Civil Engineering Association and Architects Association of Kosovo AAK to note their concerns and to develop possible solutions. KPEP will follow up in the next quarter with other stakeholder associations.

One of the most important activities is the creation of a permanent training center for the industry. KPEP hosted numerous discussions within the industry to determine their needs. This included defining the required materials and equipment and how the center should be designed to serve the construction industry and adjacent trades such as building construction. To facilitate this work, KPEP has begun drafting a SOW for an STTA that define design, cost and implementation plan.

As part of the overall training series, KPEP has begun developing a training implementation plan. The plan will address specific training requirements, including labourers, heavy equipment operators, crew supervisors, safety supervisors, inspectors and site managers. In December, an short-term consultant was engaged to assess the needs for the Heavy Equipment Operators Training Center and to make a formal recommendation. The consultant's final report will be submitted to USAID in the upcoming quarter.

1 b 2) Construction Materials

Key Activities and Events

During the first quarter, KPEP addressed issues related to the Improvement of Architectural Design and Engineering Services and Development of Work Force Skills in the Improved Manufacture of Concrete. To this end, an agreement was reached with the Architect's Association of Kosovo (AAK) regarding a broad outline of the training required for design and engineering services. The Architects Association is currently restructuring and completing its three year strategic work plan. The plan will include these new activities and recommendations for cooperation with KPEP.

KPEP's support also included leading the discussion of changes and improvements to legislation regulating services provided by architects and engineers and the recommended improvements to the construction law.

Project Coordination

The sector is working closely with the BEE Component on the new Construction Law and Procurement Law. There is ongoing cooperation with the WFD Component with regard to industry conferences, sector training and SOW activities. The WFD advisor was deeply involved

in the Heavy Equipment Operator Training Needs Assessment intervention. With regard to BSP services, the sector was in ongoing discussions on mutual support for upcoming activities.

Expectation for the upcoming quarter

Road Construction

During the next quarter, KPEP will work to educate ministries and municipalities on the importance and benefits of proper project materials, components and service specifications that are based on international and EU construction and road standards.

KPEP will also complete the SOW and contract a short-term consultant to develop a training program for road designs to be delivered to local designers and other stakeholders. KPEP will also work in close cooperation with the MTPT to assist in the design of three pilot road construction projects. Each of these pilot projects will include the training of road construction inspectors, testing staff, and staff certification; accreditation/certification process for road construction designers, engineers; development of the training schedule for RCAK and its members; and development of the manuals for inspectors.

Construction Materials

KPEP will focus on the preparation of a SOW for an STTA to develop training and certification programs to improve design and engineering services and training programs for concrete plant operators, maintenance and supervisory personnel. This will include an agreement on Training Center premises; preparation of the budget; signing of an MOU with the MESP and the AAK; an agreement on a cost-share arrangement and an MoU between Kosovo Association of Concrete Producers KACP; development of the training/certification program(s); and the incorporation of specific training modules that may be delivered by local trainers.

TRANSFORMATIONAL SECTORS

The ‘Transformational Sectors’ for the first year of KPEP are Forestry and Wood Products, and Information and Communication Technology (ICT). These sectors will require interventions that go beyond specific ROI transactions and may include the entire spectrum of assistance from policy advocacy to workforce development to business support services and association strengthening among others. Project resources will be focused on activities that best support the goal of achieving transformational change within these sectors.

1 c) Information and Communications Technology (ICT)

Key Activities and Events

ICT includes all technologies associated with the manipulation, creation, development, storage, maintenance, enhancement and communication of information. For the purposes of KPEP, the definition will also include the human resources to accomplish these tasks, the laws and regulations to provide a stable environment and the associations and specialty groups required to enhance and grow the sector.

Key activities in this quarter included the completion of the Roadmap Strategy to stimulate growth and innovation within the ICT sector and the identification of the lead ICT companies, associations, universities that will play a significant role in its development and implementation. A key component to this work will be next quarter's completion of the SOWs for expert STTA's and other partners such as JE Austin.

KPEP also established close cooperation with the Crimson Capital team and the group responsible for the new ICT Association. KPEP will play a key role in the development of the ICT Association by participating in the identification and development of training, seminars, workshops and conferences that will lead to creating new products and services and regional market linkages.

ICT's identification as a Transformational Sector implies its ability to create cross-linkages to other industry sectors. One such sector is the Tourism Industry. KPEP hosted several meetings with the tourism and ICT sector leadership to discuss barriers within the industry and the development of innovative IT solutions. These meetings will culminate in a joint innovation workshop to be held in the next quarter. It will be held at UBT, with participation of key leaders the ICT and Tourism sector. The leaders will discuss and prioritize the barriers within the tourism industry and assess how ICT can support the growth of tourism in Kosovo through the development of innovative products and services.

Project Coordination

The sector is working in close collaboration with the BEE Component to address the issue of intellectual property rights. The sector is also working closely with the WFD lead on developing sector training and expert SOWs, including the preparation of scopes of work for KPEP partner JE Austin in the areas of skills and gap assessment. BSP is assisting the sector by addressing the development of critical BSP skills and the incorporation of local experts in short-term technical activities, delivery of services through the existing ICT Association and the "Shadowing Program" aligned with the use of international experts.

Expectation for the upcoming quarter

On 12 January 2009, KPEP hosted the first joint ICT – Tourism meeting. The results will be a joint innovation workshop (hosted at UBT) with key leaders the ICT and Tourism sector to assess how ICT can support the growth of tourism in Kosovo through a series of joint activities and the development of innovative products and services.

KPEP will prepare a SOW for an international STTA to perform an ICT "Skills Gap Analysis" and organize an awareness seminar with main stakeholders in order to present the findings on the issues identified during the joint workshop.

Using the Tourism – ICT development as a model, KPEP will identify and initiate additional KPEP sectors discussions by hosting joint meetings with industry leaders of the Recycling and Wood Products and Fabricated Metals.

1 d) Wood Processing and Forestry

Key Activities and Events

The Forestry and Wood Products sector includes the entire value chain from forestry, logging, primary wood processing, and finished wood products, including doors, windows, flooring, and furniture.

During the first quarter an assessment of the current state of the industry was initiated and meetings conducted with a number of key stakeholders, including the Association of Wood Processors of Kosovo (AWPK), Investment Promotion Agency in Kosovo (IPAK), Association of Private Forest Owners in Kosovo, local forestry specialists, the Association Women for Women International, and the Ministry of Agriculture, Forestry and Rural Development (MAFRD), to understand the plans of these stakeholders and the sector as a whole and to outline KPEP potential support and involvement.

The Workplan for Wood Processing and the Forestry Sectors was completed. This included the identification and introduction of a local forest expert to discuss forest management and certification, sector needs, work plan issues and to discuss the level of engagement of this expert with KPEP.

In order to seek input and acceptance of KPEP's plans, a number of activities were conducted across both sectors. This included discussions of joint program activities with GTZ and meetings with the executive director of AWPK to define further activities important for wood processors and AWPK.

To increase sector competitiveness, KPEP will work in conjunction with AWPK to create joint activities that will increase their manufacturing capabilities, the implementation of quality management systems and new technology sourcing. KPEP will also work to assist in the pre and post preparation for companies to visit the LIGNA trade show (largest wood processing machinery show in Europe) in Germany in May.

Additionally, the wood processing show "Natyra", which is expected to be one of the biggest wood processing trade shows in Southeast Europe, is to be held in Kosovo in June 2009. KPEP will assist in pre and post member preparation, including advertising and participation at the two regional furniture and wood working show scheduled for Montenegro and Albania.

To stimulate job creation and industry growth, KPEP met with the Wood College in Ferizaj to discuss assistance with the implementation of a carpentry training project for women. During the previous USAID KCBS project, the organization of Women for Women International Kosova (WfWiK), had requested assistance for a training program and curriculum development. Due to the lack of financing, the project was not implemented at the time. WfWiK has now identified funding and requested KPEP's support in identifying local trainers. KPEP supplied WfWiK with a list of possible trainers and has facilitated an agreement between the wood college in Ferizaj and WfWiK. The training will be held in the private carpentry shops of Krasniqi in Drenas and Galanteria in Podujevo and will train 37 women from the Drenas region. KPEP will monitor the training and use lessons learned to establish the next phase of the expanded training either with the Wood College or other private shops.

In preparation of KPEP's work in the Forestry Sector, KPEP hosted discussions with the Executive Director of the Association of Private Forest Owners in Kosovo, to learn more about the annual work plan of the association and to assist association members of the Private Owners Association objectives in establishing a sustainable forestry management system.

Project Coordination

The sector is working closely with the WFD. Activities include preparation for the trade fairs in Pristina and Montenegro and support for the training program development for "Women for Women International Kosovo" (WfWIK). The sector is also closely coordinating with the BEE component in the development of a pilot forestry product certification program. The BSP lead met with the AWPk to gauge their capabilities. BSP has also proposed a "Shadowing Program," aligned with the use of international experts.

Expectation for the upcoming quarter

During the next quarter KPEP will prepare for the pre and post participation training for the Furniture Fair to be held in "Enterijer" Budva, Montenegro, and continue preparations and support for the "Natyra 2009" Pristina furniture and wood processing fair.

KPEP will work with IPAK, GTZ, and other organizations active in the industry to define joint support for companies seeking new markets and new product development.

KPEP will also continue support of "Women for Women International Kosovo" (WfWIK) and assist in the implementation of a carpentry training project for women.

TRANSACTIONAL SECTORS

The 'Transactional Sectors' for the first year of the KPEP Project are Tourism, Recycling, Base Metals and Fabricated Metals, and Decorative Stones. KPEP will focus on discrete ROI initiatives that will help the sector increase sales, export, increase employment, attract FDI, or move up the value chain. Moderate project resources that are targeted, specific and results-driven will be allocated towards these sectors in the first year.

1 e) Decorative Stones

Key Activities and Events

The Decorative Stone sector in Kosovo consists of (a) the quarrying of marble, granite, dolomite, porphyry, and ceramic materials, (b) cutting and polishing of stone slabs, and (c) manufacture of ceramic tiles.

KPEP proposes that the decorative stone industry and particularly the extraction, cutting and polishing of marble holds tremendous potential for the industry. KPEP has identified the key companies in the sector, determined opportunities for strategic cooperation and is identifying investors (local and international) to co-fund reserve assessments.

KPEP hosted a meeting at the Department of Geology of the University of Pristina at Mitrovica, and the president of ELSA, a producer and importer of decorative stone, to discuss the viability for a reserve assessment in the Peja region and to obtain more specific input about potential upcoming transactions within the sector. A reserve assessment would establish what types and quantities of decorative stones exist at this specified location. During the meetings, ELSA proposed a focused Reserve Assessment for the Peja region. ELSA has submitted a first draft cost proposal, conducted preliminary drillings, obtained the appropriate permits, identified potential local and international buyers, and has the skills to plan and lead the Reserve Assessment. Additionally, ELSA is willing to work with the University and to support an internship program.

KPEP is in the process of drafting a SOW for a local consultant, Dr. Islam Fejza, who is an expert in this field, to lead the process for this assessment, methods for certification of the assessment findings and creating market linkages.

Project Coordination

The WFD lead is assisting with the SOW for the reserve assessment.

Expectation for the upcoming quarter

During the next quarter, KPEP will finalize the SOW for Reserve Assessment STTA. The consultant's objective will be to develop the process for the Peja assessment, define the value chain for the sector, identify potential funding opportunities of the reserve assessment, prepare an FDI guide, prepare an Awareness Paper for the Government and other potential investors, and help to establish and support the evolution of the Decorative Stones Association.

1 f) Tourism

Key Activities and Events

The Tourism sector, for the purpose of this analysis, was broadly defined to include accommodation and food service, travel agencies, tour operators and tour guides, and tourist destinations.

The sector selection process resulted in the identification of three distinct areas of potential for tourism:

- Local day and weekend tourist activities designed to keep the international and Kosovar communities in the country instead of traveling to Albania, Macedonia, and other destinations;
- Regional travel in which international tourists break a period of travel among a number of regional destinations; and,
- Large-scale Kosovo-focused international travel on the scale of the Brezovica ski resort.

The sector strategy that was ultimately designed focuses primarily on the first area, and on the second and third in a very limited way.

KPEP is now planning programs that will identify, promote and support a *Stay the Weekend* campaign. Through branding and the development of businesses that can accommodate weekend

and day-trip tourists, KPEP expects to see significant improvement in this small but important sub sector.

KPEP held planning meetings with the Kosovo Tourism Association (KOTAS) to understand KOTAS's plans for growing the association and the tourism sector in Kosovo overall. This included a discussion as to how KPEP might support KOTAS' pre and post participation in the April '09 tourism fair in Zagreb, CROTOUR. It was also agreed for KPEP to bring together leaders from the ICT and tourism sectors in order to facilitate discussions about the barriers in the tourism sectors and how ICT products and services make the tourism sector more competitive. This first joint meeting occurred on 12 January with a formal planning workshop to be held at UBT during the last week of January 2009.

KPEP also continued discussions on the impact of the Tourism Law and the National Tourism Strategy with KOTAS and other stakeholders and its suitability to Kosovo's tourism needs. KPEP also met with a Booz Allen tourism expert to solicit input and feedback on its proposed strategy and to draft a SOW for the first tourism intervention, local day and weekend tourist activities.

Project Coordination

The sector works closely with the BEE component regarding laws, regulations and institutions affecting the tourism sector. The BSP component met with KOTAS several times and organized a local tour as a training for the association.

Expectation for the upcoming quarter

During the next quarter, KPEP expects completion and implementation of the design of the "Stay the Weekend" campaign. As the international and Kosovar communities venture out and participate in the new offerings, KPEP will monitor the experiences, fine tune the program, and pursue improvements that will ultimately become relevant to the regional tourist.

KPEP will continue to facilitate discussions on BEE issues affecting tourism with a main focus on legal and regulatory issues which prevent tourism transactions from coming to fruition. It is anticipated that the BEE component will draft an outline document including key points for consideration.

KPEP will host the first joint meeting with companies from the ICT sector and the Tourism sector to stimulate innovation ideas, work together with KOTAS to identify and create better incentives designed to attract FDI, facilitate discussions for the creation of solutions required and unique to tourism in Kosovo.

KPEP will continue to meet with GTZ to discuss KPEP plans and activities and determine areas of joint cooperation. This may include discussions with the TCT (Tourism Coordination Team KOTAS, GTZ, Ministry of Environment and Spatial Planning, Ministry of Trade and Industry, and representatives of the business community) to review and make recommendations on improving the current standings with the National Tourism Strategy.

In support of all of these activities, KPEP is also anticipating participation in the RCI tourism roundtable in Tirana in February.

1 g) Recycling

Key Activities and Events

Recycling refers to the collection, sorting and processing of metal, glass, paper or plastic items so that the materials from which they were made can be reused.

The first quarter activities included the identification of local partners with the ability to play a strong role in the sector and potential investors to help establish portions of recycling value chain.

KPEP has also identified a local expert, Vehbi Berisha, and will develop a SOW for this expert to assess the current state of recycling in Kosovo.

KPEP also conducted onsite visits to Eurokos, to discuss their existing plans, business proposal and joint work with the US consulting firm Binswanger, Inc., to establish a recycling – power generation plant in Kosovo. Binswanger is preparing a feasibility study for the plant, and they are also tasked with identifying an investor for this project. Potential investors are the Greek company Spider and a U.S. company. KPEP also met with the AG Group, a paper mill, to discuss its plans, business proposal, and jointly work with the IFC World Bank Group to establish a paper recycling plant in Kosovo. AG Group has secured the land, completed a detailed business plan and is in discussion with additional partners and investors to secure the necessary funding.

In both cases there is a high potential for jobs creation and product design and manufacturing along the entire value chain.

Project Coordination

The sector is working in close cooperation with the BEE Component regarding the implementation of the Law on Waste. The sector is working in close cooperation with the BSP Component regarding delivery of services through the existing Recycling Association and the “Shadowing Program” aligned with the use of international experts.

Expectation for the upcoming quarter

During the next quarter, KPEP will secure the services of a local STTA to document the Value-Chain for the recycling of paper, textiles, glass, metal and trash. KPEP will also identify appropriate recycling multipurpose projects and identify local implementing partners.

KPEP will continue discussions with Eurokos, regarding the establishment of a recycling – power generation plant in Kosovo. The Binswanger consulting team will be in Pristina in January and joint meetings will be held to determine areas of KPEP contribution. KPEP will follow up with AG Group to make recommendations on assistance, including the integrated use of construction, architects and engineers, WFD and local consultants that are certified under the BSP “Premier Advisors” program.

The BEE component will continue to monitor the Government’s progress with regard to the PPP law.

1 h) Metal Fabrication and Auto Parts

Key Activities and Events

The Metals sector for the purpose of this analysis was defined as fabricated metals (primarily sheet metal products, including duct work, gutter pipes, etc.) and automotive parts (auto parts). It excludes the extraction of base metals and the processing of scrap metals. During the first quarter, KPEP identified a local expert and began the development of a SOW to document the Value Chains for both sectors, determine immediate areas for improvement through training or other interventions, market linkages and potential investment partners.

Expectation for the upcoming quarter

KPEP will secure the expertise of a local expert to design and recommend the areas of focus, determine other donor programs and recommend activities that result in increased transactions and improvements in the value-chain.

INFORMATIONAL SECTORS

Key Events and Activities

The ‘Informational Sectors’ include for the first year of KPEP Fishing and Aquaculture, Textiles Apparel and Leather, Printing and Recorded Media, and Energy Efficiency.

The approach towards Informational Sectors is to gather more information and monitor developments in the sector. Limited project resources will be devoted to these sectors and the Project Team will provide USAID with periodic reporting based on additional research.

As such, KPEP activity in this area includes continuing to gather important data and develop action plans. For example, KPEP has met Ministry of Energy and Mines, to discuss the future water plant project in Zhur, Prizren.

Expectation for the upcoming quarter

KPEP will continue to monitor these sectors and be prepared to react as the industry requires. In the area of Energy Efficiency, KPEP will also closely follow the progress with the construction law and Government steps toward the hydro plant investments and identify potential FDI in the sector.

Component 2: Business Support Services

During this first quarter, the Business Support Services team laid the ground work for its goal of strengthening business services providers (BSPs) in Kosovo. KPEP defines BSPs broadly to include firms, non-government organizations including associations, freelance or solo providers, and subject matter experts. KPEP's work with associations will primarily focus on their role as service providers to their members.

Our proposed approach to working with BSPs was outlined, and initial activities were undertaken (see below). We began the process by meeting with representatives of Kosovo government, non-government organizations and USAID and other donor programs to become more familiar with their activities and plans. These included, but were not limited to: SME Agency in the Ministry of Trade and Industry, Kosovo Chamber of Commerce, American Chamber of Commerce in Kosovo, TAM-BAS (Turn-Around Management-Business Advisory Service) of the EBRD (European Board for Reconstruction and Development), Society of Certified Accountants & Auditors in Kosovo, Alliance of Kosovo Agribusinesses and Alliance of Kosovo Businesses, Sector associations such as the Tourism, Milk Processor, Poultry, and Wood Processors, Local firms such as Management Development Associates, First Pristina Consulting Group, Euro Sky Travel Agency, HBCEuro Skills training company, Serbian women's association Avenija, Raiffeisen Bank Micro Enterprises Section.

KPEP's approach to BSP capacity building will be practical and include direct work with project clients wherever possible, incorporate best practices and build on past experience and success, and be collaborative and cooperative both inside the project and within the broader community. Progress in the first quarter included:

KPEP will utilize numerous expatriate short-term technical assistance (STTA) providers who bring significant knowledge, experience and skill to their assignments. To help ensure a transfer of this expertise to Kosovo providers, KPEP proposes to partner expatriate STTAs with local BSPs during their assignments. The need to involve the local BSP in his/her assignment will be integral to the STTA's scope of work (SOW), and the local BSP will also have a scope describing his/her tasks and deliverables. Partnering arrangements will be tailored to the circumstances of the assignment and timing. In some cases, a full-blown "shadowing" arrangement where the local person and expatriate work together closely on a daily basis will be possible.

While businesses often complain about the lack of available capital, banks and investors insist money is available but solid, well-written proposals are lacking. KPEP's Strategic Activities Fund (SAF) also wants to receive well-articulated proposals, especially since its mandate differs from the previous project and SAF staffing is significantly less. To improve proposals, business plans and related documents, KPEP is requiring that organizations that submit SAF requests for \$10,000 or more meet certain requirements. One way is to complete Kosovo Premier Advisor training developed by the project (see below); the other is to have an appropriate international certification, such as the European Business License (offered through American University of Kosovo) or a relevant certification from the five offered through the TAM-BAS.

Kosovo Premier Advisor (KPA) training is an intensive course focusing on marketing, financial modeling and the link between the two, as well as project management and written and oral presentation. During the first quarter, a pilot to be conducted in late January 2009 was organized.

The training is based on a concept developed in Scotland and adapted by consultant Mike Mann who led a European Union-supported program in Kosovo.

To identify potential participants in the training, KPEP published a call for applicants, and to provide “real life” exercises for the course, a “call for concepts” was directed at organizations with good ideas (businesses, NGOs, associations).

Two separate presentations were held to introduce the training program to applicants and to explain the role of the concepts and SAF guidelines to organizations with potential concepts.

- More than 20 persons representing 18 organizations attended the concept presentation
- 33 concepts were submitted; evaluation and selection to be completed in January
- 30 persons representing 15 firms, NGOs, associations and solo practitioners applied to participate in the KPA training
- 15 participants were selected, one from each organization that applied

KPEP and the TAM-BAS have agreed to jointly support management consultants who want to seek the internationally recognized CMC (Certified Management Consultant) designation. The two projects will undertake this activity beginning in April 2009 with the end of June 2009 as a decision point for continuation of support based on active involvement of the consultants. KPEP hosted an introductory meeting about CMC on 22 October with representatives of TAM-BAS and USAID attending the presentation given by Ljubomir Trajkovski and Jasmina Trajkovski, CMCs from Skopje, Macedonia.

Working with the Monitoring & Evaluation specialists, the component lead adapted an Association Development Index to be used to assess progress of associations supported by KPEP. Twelve associations completed their self-assessments at a 30 December presentation on administration of the index (18 associations were invited).

Sector-Specific Assistance

During the quarter, the component lead edited a Booz Allen Hamilton trade fair handbook for use by KPEP and provided it to sector leads for comment. She also assisted in the development of several “calls for expressions of interest” and scopes of work for sectors and other components.

- Call for expression of interest from market research organizations
- Scope of work for agricultural marketing position (local staff position)
- Scope of work for value chain audit
- Scope of work for STTA on heavy equipment operation and safety (expatriate)
- Scope of work for baseline survey firm (local firm)
- Scope of work for STTA to administer Association Development Index (local)

Expectation for the upcoming quarter

Kosovo Premier Advisor training will be piloted in the second quarter. Participants will prepare proposals/business plans/feasibility studies for consideration by KPEP and/or banks and other potential investors as part of the training, and KPEP will provide necessary follow up on those. From this initial group of participants, KPEP will select two or more to conduct a second pilot in the second quarter. Among those invited to take part in the second pilot will be former staff members of the Kosovo Cluster and Business Support (KCBS) project and temporary KPEP staff who want to become consultants.

Freelance individuals and subject matter experts often lack up-to-date skills to be effective consultants and/or trainers. As a result, KPEP will require that solo practitioners complete “train

the trainer (TOT)” and/or consulting skills training in order to work on KPEP supported activities. At this time, KPEP plans to develop and pilot these two trainings with a local training company in the second quarter. A SOW for a subcontractor for the TOT is being developed already. (If training proposals do not meet KPEP standards, the program will bring in expatriate STTA in training to work with a local company.) The local company would develop a plan to make the training a sustainable product to be offered on the market. On the consulting pilot, KPEP proposes to collaborate with ABA/CEELI to identify local attorneys to be the participants.

At this time it appears that an agriculture sector STTA assignment will provide the first opportunity to use the “shadowing” concept of partnering local experts with international STTAs. As other scopes of work are developed, the component will work with sector leads and technical specialists to incorporate this concept into their assignments and with sector staff, monitor their progress.

Component will work with sector staff to finalize trade fair guidelines – when/how KPEP will support trade fair participation. At this time it appears the first trade fair that KPEP supports will take place in the third quarter, so preparation of participants will take place in the second quarter.

Component 3: Business Enabling Environment

The first quarter of the KPEP project was occupied primarily with planning, assessing, identifying sectors, and establishing baselines and priorities. The BEE Advisor participated in this process along with the rest of the KPEP team. The exercise was productive, and afforded the BEE Advisor a detailed look at the methodology, process and result. The bulk of the BEE Component work will be directly responsive to the requirements identified in KPEP's involvement with specific sectors, sub-sectors, and firms and, therefore, highly dependent upon in precisely *what* directions the project moves.

At the same time, however, in order to help the project avoid pitfalls associated with lack of awareness of legal and regulatory issues, the BEE Advisor has monitored and maintained continuous discussion with the various components. In other words, while the work of the BEE Component depends on the activities of the others, particularly the Competitiveness Component, the BEE Advisor has concurrently contributed to the identification of the activities.

Even during the decision-making process, however, the BEE Component had, thanks to work already done by the KCBS Project, identified some legal/regulatory issues to begin immediate work on. The BEE Advisor reviewed and commented on a number of laws that are immediately relevant, including the Draft Construction Law and the Draft Public Private Partnership Law making their way through the Assembly of Kosovo, the 2004 Hotel and Tourist Law, the applicable Recycling regulations, and the Procurement Law. The goals in reviewing were to provide comments on the yet-to-be-passed laws, and advice on implementation regarding the laws already in place.

All of the laws under consideration contain a number of provisions that will likely chill rather than facilitate commercial growth. For example, the draft Construction Law would require all building plans to be pre-approved by a Chamber of Engineers, rather than putting the onus of responsibility on the professional(s) designing the building. And, those laws that have been passed require review so that KPEP may, where appropriate, assist in implementation or promote best practices under the law by businesses.

Finally, the search for a suitable Junior Legal Advisor continues. Though the numbers of talented and well-educated young lawyers, this growth has been outpaced by the competition for their services in the public and private sectors.

Donor Coordination

Vibrant, though ad hoc, information-sharing with other donors, as well as other USAID projects, continues in earnest. The BEE Advisor remains engaged in the DFID (UK) and GTZ (Germany) effort to use the expertise of the Donor Committee for Enterprise Development (DCED) to build a sustainable local private sector development donor assistance group.

Trade/Regional Integration

The BEE Advisor has maintained discussion with both the International Civilian Office and the Ministry of Trade and Industry in developing an efficient and KPEP-relevant plan for providing assistance in Central European Free Trade Agreement (CEFTA)-related matters. Since much of

the planned competitiveness work will focus on exports, Kosovo's meaningful participation in CEFTA is critical. CEFTA is, for example, the only platform upon which Kosovo may fight the rejection, based on non-recognition of the Kosovo Certificate of Origin Stamp, of Kosovar goods at the Serbian border.

General Legal Capacity Building

The BEE Component is working with the KPEP BSP Component and ABA-CEELI to develop a Legal Consultant Training Program. The program would train young lawyers to provide advice on trade and contracting to Kosovo firms, particularly those sponsored by KPEP at trade fairs.

Sector-Specific Activities

- **Agriculture** – Collaboration with the KPEP Agriculture Team, and a review of Kosovo's agriculture-relevant legal and regulatory framework resulted in a strategy that will focus on facilitating exports using CEFTA, and assistance in implementing trade remedy measures, including the draft Antidumping Law now in the Kosovo Assembly.
- **Construction** – The BEE Advisor reviewed the Draft Construction Law and Draft Public Private Partnership Law and is working with the Construction sector team to develop a strategy for promoting and facilitating the most efficient implementation of both.
- **Forestry and Wood Processing** – The BEE Component has reviewed the KCBS pilot certification plan and is adapting it to KPEP's objectives.
- **ICT** – The BEE Advisor is collaborating with the ICT sector lead in selection of sub-sectors that will not experience irresolvable IPR legal barriers. KPEP is developing a plan for review of the IPR framework as it pertains to the ICT sector.
- **Transactional Sectors** – Though the BEE Advisor collaborated in the selection and analysis of laws, regulations and institutions related to the transactional sectors, the only substantive work in this area thus far has been in tourism. The BEE Advisor has consulted with the Kosovo Tourism Association and three local lawyers who have contributed significantly to the domestic legal framework and has reviewed the Law on Hotels and Tourist Activity.

Expectation for the upcoming quarter

In the next quarter, the BEE Component expects to, among other activities, provide significant assistance with passage and implementation of the Public Private Partnership Law (which will be relevant to activity in most of the KPEP sectors), implementation of the final version of the Construction Law, full development of the Commercial Legal Consultancy Training Program, revision of the Law on Hotels and Tourism Activity, implementation of the Pilot Forest Certification Program, and implementation of laws and regulations related to recycling.

Component 4: Workforce Development

KPEP's implementation during the first quarter was concentrated on sector selection, donor and governmental meetings, and strategy/work planning. As such, the Workforce Development (WFD) Lead, with all KPEP team members, was actively engaged in these efforts. Additionally, the WFD Lead endeavored to become knowledgeable with Kosovar WFD issues and information to establish baselines and to drive WFD component approaches.

The WFD Lead initiated meetings with relevant donors, training providers, associations, and government officials to become familiar with pertinent initiatives, needs and capacities, and to identify potential cooperative opportunities. These contacts included: World Learning, National Albanian American Council, GTZ, Lux Development, Swiss Contact, Austrian Development Agency, MEST Danida, KOSVET III & IV, National Career Guidance Resource Center, American University of Kosovo, University for Business and Technology, Dardania University, Management and Training Associates, HM Consult, Associations for Wood Processors and Poultry. As a result of these meetings, KPEP will work closely with several organizations in the second quarter, to undertake WFD activities in both agricultural and non-agricultural sectors.

Another significant effort during the first quarter was to locate and review Kosovo- specific documentation regarding past and current WFD activities, initiatives and records (e.g., donor reports, government statistics, consultant studies, etc.). This examination yielded essential knowledge integral to establishing baseline data and ascertaining WFD gaps and project overlaps in Kosovo.

Work planning was a fundamental activity in the first quarter, requiring ongoing consultation with KPEP sector specialists to establish WFD needs, tasks, and activities. In this regard, the WFD Lead worked with the KPEP team to prepare several work plan drafts for submission to USAID.

Strategic Activities Fund

The KPEP Strategic Activities Fund (SAF) objectives are to provide a source of flexible funding in support of the objectives of the program components, and cost share specific discretionary items that can lead to improvements in the overall competitiveness of a sub-sector or part of the value chain.

In this first reporting period KPEP Strategic Activities Fund Manager in collaboration with Operations Director and BAH Grants Specialist prepared a draft of SAF Manual, which will be used as a guide for implementation of activities under SAF. This manual describes the system, procedures and mechanisms that will be used for managing the SAF. KPEP proposed two funding mechanisms to be used for awarding and supporting activities that meet KPEP and SAF established criteria; one is subcontracts and the other is grant awards. On December 22, and in accordance with Task Order requirement, the draft SAF Manual was sent to USAID for review and approval.

The total estimated value of SAF is \$3,760,000. It will be used to award Grants and Fixed Price Subcontracts to consulting companies, individual small and medium enterprises, business associations, cooperatives, NGOs, universities and other organizations for analysis of market opportunities, value chain mapping and benchmarking; purchase specialized equipment that would benefit an entire sector or sub-sector; purchase training materials for labor and management skills upgrading, among others.

In accordance with the task order, KPEP will use SAF funds to advance competitiveness within KPEP components. This means that activities supported by SAF should benefit more than one firm, group, association, or other entity, to provide a demonstration effect or to introduce new technologies to stakeholders. SAF will not be used to provide unfair subsidies that compete with existing financial institutions.

The SAF manual discusses the estimated size of awards, the difference between the grants and subcontracts, which type of funding mechanism should be used for which types of activities. KPEP estimates that Grants and Fixed Price Subcontracts will range between \$10,000 and \$50,000. The manual describes eligibility requirements for organizations and which activities can be supported through SAF. It also details description of the process of awarding a grant or subcontract, including roles and responsibilities of KPEP staff in that process. The manual also provides information on how the awards are to be monitored and description of responsibilities of KPEP staff in this process, including but not limited to monitoring visits, review of regular reports and approval of payment for completed activities.

Once approval for the SAF manual is received, KPEP will prepare an Annual Program Statement (APS) and organize a stakeholder conference to present SAF objectives, provide information on eligibility requirements, and to discuss the procedures for applying for grants. KPEP will also prepare a comprehensive presentation of SAF for its website and develop SAF brochures to be disseminated to interested entities

Performance-Based Management System

KPEP, together with an expatriate Monitoring and Evaluations Specialist, developed its PMP framework in the first months of the project. The first draft was submitted with the draft work plan, and a revised version with the final work plan on December 22.

Methodology

1) Indicators

KPEP's Performance-Based Management System (PBMS) includes: performance indicators, their definition, data source for collection, method and approach of data collection/calculation, frequency of collection and reporting, responsible party for data collection and justification for indicators.

There are two indicators on the Strategic Objective level:

- Domestic sales as percentage of imports, by sector, and
- Foreign direct investment, by sector.

Under Component 1: Increased Competitiveness of Key Sectors, KPEP will report on seven indicators:

- Increase in sales in target sectors,
- Increase in investments in target sectors,
- Number of jobs created in target sectors,
- Number of firms assisted in target sectors,
- Number of new start ups in target sectors,
- Number of partnerships, and
- Labor productivity in target sectors.

Under Component 2: Improved and Demand Driven Business Support Services, KPEP will report on five indicators:

- Number of firms and associations, providing business support services,
- Value of sales among BSPs,
- Number of jobs created, among USAID supported BSPs,
- Progress on the Association Development Index, and
- Number of consultants trained/ certified to provide business support service.

Under Component 3: Improved Business Operating Conditions, KPEP will report on two indicators:

- Progress on the Business Environment Index, and
- Progress on the policy index.

Under Component 4: Improved Capacity of the Workforce to Engage in Employment Opportunities, KPEP will report on six indicators:

- The number of individuals trained through USAID sponsored training,
- Number of training certifications,
- Number of program participants that obtain employment,
- Number of individuals provided with services,
- Number of internships, and
- Number of partnerships.

Also, KPEP will report on two indicators related to Strategic Activities Fund:

- Number of grants/sub-contracts, and
- Value of grants and sub-contracts.

2) Baseline and current data collection

KPEP sector teams have pre-selected enterprises (target firms) that have potential for growth and willingness to cooperate with the program. Once an enterprise is selected, the KPEP specialist works with the client enterprise to establish baseline data. Baseline data is relative to sales (domestic and exports), imports, production, partnerships, foreign direct investments, local investments and jobs; and each quarter the sector specialist will collect data for monitoring purposes.

Quality control is conducted by the PBMS specialist, who does random site visits and interviews representatives from the client enterprises and organizational partners to verify the results that have been reported. This includes verifying the accuracy and consistency of the data reported by the sector specialists the intervention strategy of KPEP, and the causal relationship between the results and KPEP interventions.

Based on the baseline data, KPEP will setup targets for all indicators, by the end of February '09 and submit final draft of PBMS to USAID.

3) Baseline data survey

A local service provider (survey firm) will be engaged to conduct a sector survey. The purpose of the survey is to establish certain baseline data on the sectors for the year immediately prior to the program's intervention (calendar year 2008) in order to monitor and evaluate the effectiveness of the program in meeting the strategic objective of the program: accelerated growth of the private sector. On December 23, KPEP organized a vendor's meeting to present to them the requirements for the sector baseline survey. Six local firms attended. Bids were received on January 12 and a selection be made in the following week. The survey will be conducted (and finished) during the second quarter of FY 2009.

4) Data collection from external sources

For some indicators the source of data is external. During this quarter, KPEP met with representatives of the Central Bank of Kosovo, the Ministry of Trade and Industry (Agency for Business Registry), the Statistical Office of Kosovo and Customs as potential sources for the data collection. Regular contacts have been established and Data Quality Assessments completed. All these institutions require a formal request (in the form of MoU) to provide data to KPEP.

5) Database design

KPEP is in the process of developing a specialized PBMS database to track and report results. The database will be a back-end, data entry system used for inputting information and generating reports. It records information about the client enterprises, products or services, the name of the KPEP specialist, baseline data, and the monthly figures for jobs, sales, production and other indicators. The database will be designed to meet the specific needs of KPEP, recording and sorting information by enterprise, sector, industry, and jobs (gender disaggregated). It will include the data collection and reporting for all four components.

Expectation for the upcoming quarter

- Finalize PBMS database (Expected for February).
- Establish baseline and targets for the LOP for all indicators.

- Review and/or revise the PBMS before submitting the final version (with baseline and targets) to USAID.
- Finalize the work with sector baseline data survey.
- Prepare presentation on PBMS to be delivered to the program staff.

Communications

KPEP, with the guidance of a Booz Allen Communications Specialist, developed its strategic communications plan. It was submitted with the draft and final work plans on November 21 and December 22, respectively.

The objectives of the strategic communications plan are to create both the organizational capacity and strategic work plan to support KPEP's goals. Strategic communications is the integrated, systematic, and comprehensive approach to developing and planning efforts to inform, persuade, engage, and gain support of key audiences. In the area of business environment reform, engagement, and participation in the reform process with strategic planning of communications activities help to influence stakeholders' behavior to build support and accelerate the adoption of reform.

1 a) The KPEP Project Strategic Communications Plan

Creates the internal communications infrastructure for the team to effectively inform and engage external stakeholders about the KPEP project. The plan focuses on the launch of KPEP, and includes planning for the following activities:

- ▶ Stakeholder Meeting held on December 12, 2008
- ▶ Planning for KPEP Road Show, scheduled for January 2009
- ▶ USAID-approved templates for project communications
- ▶ Design for KPEP website, design concepts begun
- ▶ Information structure for KPEP informational materials
- ▶ Establishment of clear approval processes and timelines
- ▶ Creation of a photo library and protocol for taking and archiving KPEP photos

1b) The KPEP Stakeholder Engagement and Strategic Communications Plan

Is aligned with the sector strategies and monitoring and evaluation plans to support reform efforts and advance KPEP activities across its four key components. This plan outlines stakeholder engagement and communications activities for Year One of KPEP and includes planning for the following activities:

- ▶ KPEP Road Show, scheduled for January/February 2009
- ▶ KPEP Open House, scheduled for February 2009
- ▶ Sector Surveys and Assessments (inclusion of 3-5 communications-related questions for future campaigns)
- ▶ Creation of the KPEP website
- ▶ Development of KPEP informational materials
- ▶ Promotion of KPEP Strategic Activities Fund (SAF), aligned with Road Show
- ▶ Promotion of KPEP training programs, aligned with sector strategies
- ▶ Public relations strategy and outreach events, aligned with sector strategies
- ▶ Awareness campaigns through associations – Public and Sector-Specific, aligned with sector strategies
- ▶ Sector promotion and trade shows, aligned with sector strategies
- ▶ Monitoring and evaluations

2) Stakeholder Meeting

KPEP held a stakeholder meeting at the Grand Hotel in Pristina on December 11, which was attended by over 80 stakeholders. At this meeting, KPEP presented its key staff and gave an introductory overview of its program. The presentation was well received by the audience.

Expectations for the upcoming quarter

- Regional Stakeholder Meetings – Road Show in six major municipalities: Mitrovica, Peja, Gjakova, Prizren, Gjilan and Ferizaj. The purpose of these presentations is to educate stakeholders outside of Pristina about our work and to engage potential partners from the communities.
- Organize KPEP Open House (February). When KPEP is settled in its new premises in Pejton, it will hold an open house for all its stakeholders and partners.
- Finalize KPEP Web Page – KPEP’s website will become a key source of information, not only about KPEP’s activities, but also as a repository of industry knowledge and links to partners.
- Produce sector fact sheets.
- Publish newsletters.
- Conduct public and media relations to support KPEP and its initiatives.
- Monitor media for KPEP activities, private sector development and reform, and positive/negative coverage of the Kosovar business environment.